October 2025

Monthly Market Update

Quarterly Economic Update

Executive Summary

The U.S. economy continues to navigate policy changes, trade uncertainty, and evolving monetary policy. Last month, the Federal Open Market Committee (FOMC) cut the federal funds target rate range by 25 basis points to 4.00-4.25%. It was the first rate cut since the second half of last year. Despite year-over-year inflation averaging about 2.9%, recent job growth data suggested risks to employment have increased, leading to the rate cut. Policymakers remain focused on balancing inflation and employment, while businesses and consumers adjust to ongoing volatility.

Economic Drivers

Tariffs and related legal battles unsettle business conditions.

The Trump administration's tariff strategy remains a central driver of business conditions. While legal challenges to tariffs—particularly those issued under the International Emergency Economic Powers Act—are set to be reviewed by the Supreme Court, the ongoing debate has left companies facing unpredictable trade costs and regulatory risks. Recently, there has been a notable decline in business spending and investment, with many attributing this slowdown to the unsettled trade policy environment. Even as the administration explores alternative legal avenues for implementing tariffs, businesses are delaying investments and restructuring supply chains in response to shifting regulations and global tensions. Regardless of the Supreme Court's decision, persistent legal and legislative battles are likely to keep trade policy uncertainty elevated, weighing on business confidence and economic growth.

Spending bill passes through Congress, but appropriations remain unresolved.

In July the U.S. Congress enacted the 2026 federal budget proposal, also known as the One Big Beautiful Bill Act, which was signed by President Trump. The Bill averted a $4 trillion tax hike on Americans, reformed social programs, promoted a pro-business environment and expanded state and local tax deductions. Separate from the legislation are appropriations bills, which fund day-to-day government operations. Congress failed to approve a set of resolutions ahead of the deadline, and at the writing of this report the federal government is in the process of shutting down its daily activities. This is likely to be short lived with minimal long-term impacts.

The Fed eases policy rates on weaker employment data.

Look for monetary policy to remain a primary driver of short-term interest rates over the next several months as the Federal Reserve seeks to balance risks to its dual mandate of stable prices (inflation) and full employment. Fed officials believe growth moderated in the first half of the year as job gains have slowed and the unemployment rate has edged higher. In the September policy statement released by the FOMC, policymakers indicated "downside risks to employment have risen," while inflation "has moved up and remains somewhat elevated" compared to the Committee's 2% target. Based on this outlook, policy rates were reduced by 25 basis points, which lowered the federal funds target range to 4.00-4.25%.

In Fed Chair Powell's post FOMC press conference, he indicated while tariff-related inflation could be temporary, it might last longer than expected. The Fed will continue to assess the impact of executive policy when adjusting monetary policy. He also noted Committee members have diverse views on where interest rates should be given the challenges and uncertainty of the economic landscape which includes fiscal policy and trade policy.

Federal funds futures are suggesting policy rates may be eased by 25 basis points at the late-October or mid-December FOMC meetings. If upcoming employment reports signal a much weaker labor sector, the Fed may cut rates at both meetings. The market is also looking for an additional 50 basis point in rate cuts 2026. However, this outlook will greatly depend on how well the economy performs during this time, especially as it relates to the level of inflation and employment.

On Sept. 17, the FOMC released its latest forecast for the economy as part of its monetary policy statement.

Federal Reserve projections as of September 2025

Indicator	2025	2026	2027	2027	*Longer run
Real GDP growth *June projection*	1.6% *1.4%*	1.8% *1.6%*	1.9% *1.8%*	1.8%	1.8% *1.8%*
Unemployment rate *June projection*	4.5% *4.5%*	4.4% *4.5%*	4.3% *4.4%*	4.2%	4.2% *4.2%*
PCE inflation *June projection*	3.0% *3.0%*	2.6% *2.4%*	2.1% *2.1%*	2.0%	2.0% *2.0%*
Core PCE inflation *June projection*	3.1% *3.1%*	2.6% *2.4%*	2.1% *2.1%*	2.0%	
Federal funds rate *June projection*	3.6% *3.9%*	3.4% *3.6%*	3.1% *3.4%*	3.1%	3.0% *3.0%*

**Longer-run projections for core PCE inflation are not collected.*
Source: Federal Reserve Board. Data as of October 1, 2025.

Risks to the economy

The following present risks to the economic outlook:

- A protracted government shutdown could reduce economic activity and government support services as well as impact treasury markets.
- Sustained uncertainty with tariff policy may lead to a contraction in business investments. Reduced business investment could result in lower employment levels and fewer goods and services available to consumers.
- A pending Supreme Court case may clarify the extent of presidential authority over the Federal Reserve, raising concerns about the central bank's independence. Any erosion of Fed autonomy could have significant implications for monetary policy, financial market stability, and long-term economic growth.
- The debt to GDP ratio is now at about 118%. Rising federal debt levels could increase inflation and treasury yields, weaken the U.S. dollar and reduce the capacity of the U.S. government to respond to an economic crisis and war. Sustained growth in debt could lead to a fiscal debt crisis, and subsequently hardship for the American people.
- Rising prices and debt loads lead to greater financial stress, particularly among low wage earners who spend more of their income on essentials. Coupled with a weaker equity market and deterioration in the wealth effect, this may eventually slow consumer spending. Delinquencies for consumer credit cards and auto loans are trending higher.

Economic data and trends

Employment

The labor sector has softened over the past six months. For August, 22,000 new non-farm payrolls were generated while the unemployment rate increased 0.1 percentage points to 4.3%. The increase in unemployment was due to a 436,000 increase in the labor force while total employment increased 288,000, resulting in a 148,000 increase in the number of unemployed.

Furthermore, on September 9, 2025, the Bureau of Labor Statistics released a national benchmark revision to nonfarm employment for April 2024 to March 2025. The report indicated the growth in nonfarm payrolls was overstated by 911,000 jobs. The jobs data will continue to be reviewed, and a final benchmark revision will be issued in

February 2026. A preliminary update was released last year in which job growth was marked down by 818,000 jobs. The final review was ultimately not as dramatic as was initially published.

The BLS is experiencing issues in collecting employment statistics for U.S. households and likely needs to consider efforts to modernize its methods. Other factors complicating the process include the opening and closing of businesses; accurately assessing data for contract or 1099 workers; and accounting for unauthorized immigrant workers.

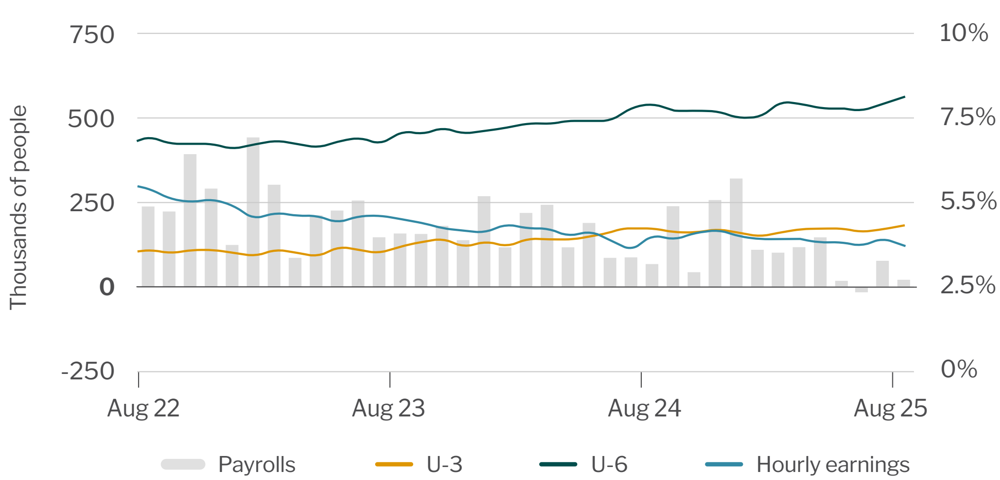
While the unemployment rate can be used to decern whether growth in employment is keeping pace with the labor force, it is a lagging indicator. Another measure of the health of the job market is weekly initial claims for jobless benefits. Despite some volatility, this indicator has moved within a fairly narrow range of 189,000 and 258,000 over the last four years (it is currently 218,000). Excluding pandemic levels, historically initial claims increase to about 650,000 during the height of recessions.

Another data point is continuing claims. These are people who have not yet found a job and are requesting benefits for another week. The number of continuing claims is down to 1.93 million from a recent high of 1.97 million. This number has been trending lower and suggests a slight improvement in how long it takes to find a job.

The claims data suggest job losses are not accelerating, which may mean demand for labor has moderated and the need for new job growth has eased. If new weekly claims jump to 300,000 on a consistent basis, expect the unemployment rate to surge and the Fed to aggressively cut policy rates to stimulate the economy to increase hiring and reduce slack in the labor market.

While the increase in unemployment is somewhat concerning, keep in mind, the unemployment rate over the past 20 and 30 years has averaged 5.8% and 5.5%, respectively. A 4.3% unemployment rate is still relatively low.

Jobs, unemployment and hourly earnings



Source: Bureau of Labor Statistics. Data as of October 1, 2025.

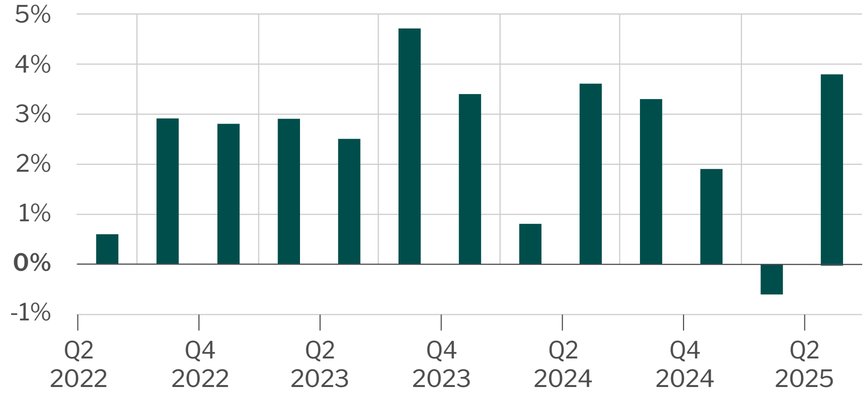
Gross Domestic Product

Real Gross Domestic Product (GDP) expanded by 3.8% for Q2 2025 as a surge in imports in Q1 was unwound in Q2. The large increase in imports resulted in overall Q1 GDP contracting by -0.6%, the first negative GDP print since Q1 2022.

Economic activity for Q2 rebounded, with consumer spending advancing 2.5% while business spending rose 7.3%. Unwinding the imports surge in Q1 also contributed to the strongest growth rate in nearly two years. The GDP price index rose at a modest rate of 2.1%.

Look for positive growth in the second half of the year and into 2026, with the economy growing by 1-2% fueled by moderate consumer and business spending and potentially lower interest rates. Housing and government spending will likely remain a drag on growth.

Real Gross Domestic Product



Source: U.S. Bureau of Economic Analysis. Data as of October 1, 2025.

Inflation

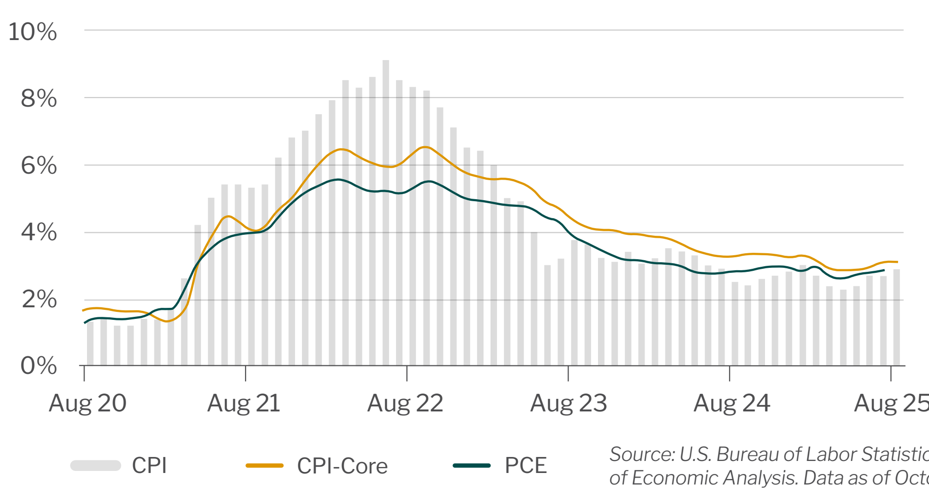
Accelerating inflation remains a concern for consumers and the financial markets. For August, prices increased 0.4% following an increase of 0.2% in July. The year-over-year rate of increase in consumer inflation is 2.9%. Excluding the volatile food and energy components, the core rate of inflation for August rose 0.3% compared to July. Compared to a year ago, the core rate of consumer inflation increased 3.1%, which matched the rate for July.

The graph below shows the year-over-year change in the consumer price index over the past five years. Recent data indicates inflation has moved higher as the Trump administration implemented tariffs. While a rising trend in inflation is not desired, the increase in inflation has been less than expected. Reasons for the weaker than expected inflation may include limiting price increases to remain competitive and/or drawing on pre-tariff inventories. Both factors are temporary, and longer-term strategies may include investment in process efficiencies, focus on more profitable products and development of domestic supply chains.

A deeper look at the core consumer price index, which accounts for about 80% of total inflation, separates commodity and service-based items. The commodities section includes items like apparel, new and used vehicles, medical care, alcohol and tobacco. These items are more exposed to tariffs while services-based categories have limited direct exposure. The major services categories include the cost of housing, medical services and transportation services. Over the past few months commodity-based inflation has been trending higher while services-based inflation has moved lower, largely due to a slowing inflation rate of housing costs.

Since the services component represents about 60% of inflation, the deceleration is masking some of the increase in commodities inflation. While inflation is part of the Fed's dual mandate, rising inflation is viewed as less of a risk than a weakening labor market.

Consumer Price Index



Source: U.S. Bureau of Labor Statistics. U.S. Bureau of Economic Analysis. Data as of October 1, 2025.